DEPARTMENT OF AUDITS AND ACCOUNTS

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November 13, 2018

Honorable Terry England
Chairman, Appropriations
245 Capitol
Atlanta, Georgia 30334

Honorable Jack Hill
Chairman, Appropriations
234 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1038-EC)

Dear Chairmen England and Hill:

The bill affects the sales taxation ofjet fuel sold in the state and creates an income tax credit for owners of timberland damaged by Hurricane Michael in the fall of 2018.

Regarding jet fuel, the bill would ratify the Governor's executive order dated July 30, 2018 that suspended collection of the state sales tax on jet fuel beginning August, 1, 2018. The bill would extend the suspension through June 30, 2019, the end of the current fiscal year.

Regarding timberland, the bill provides an income tax credit for casualty losses, subject to replanting requirements. The credit amount is equal to 100 percent of the casualty loss deduction reported on the taxpayer's federal return, provided that the credit amount does not exceed $400 per acre. Taxpayers must seek preapproval for the credit on or before December 31, 2019 and are eligible to claim the credit in the taxable year in which the taxpayer replants 90 percent of the timber lost in the hurricane. All tax credits must be claimed by December 3 1, 2024. Credits can be sold once prior to January 1, 2024. Credits claimed are nonrefundable, but can be carried forward for up to 10 years. The total amount of credits preapproved may not exceed $200 million.

Impact on State Revenue

In fiscal year 2018, the state collected $39.7 million in jet fuel taxes. Georgia State University's Fiscal Research Center (FRC) estimated that the jet fuel exemption would reduce fiscal year 2019

state revenue by $44.7 million to $49.4 million (see Table 1). There is no revenue loss in following years. The reforestation tax credit is estimated to reduce state revenues by the full $200 million cap between fiscal years 2020 and 2023. FRC assumed that much of the revenue reduction would be in fiscal years 2020 and 2021. Details of FRC's analysis are included in the attached appendix.

Table 1. State Revenue Effects of LC 43 1038-EC

($ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Jet Fuel Exemption — High	($49.4)				
— Low	($44.7)				
Reforestation Credit	($0.0)	($80.0)	($95.0)	($20.0)	($5.0)

Local Impact

Under current federal regulations, only state and local taxes in existence prior to 1987 may be charged on jet fuel, and then only at the rate then applicable. Taxes not grandfathered may only be collected if the proceeds are dedicated to aviation purposes. The proposed law ensures compliance with federal regulations.

The Federal Aviation Authority (FAA) has made clear in its Revised Policy that state and local jurisdictions, in addition to airport sponsors, may be penalized for imposing taxes on aviation fuel that are not appropriately used for airport purpose. In the fiscal year 2018 appropriations bill, $29,412,745 in one-time funds for grants to local governments was provided to offset taxes in SPLOST revenue resulting from federal spending requirements.

Impact on State Expenditures

The Department of Revenue (DOR) estimated $105,000 in initial costs and $96,000 in annual costs associated with the reforestation credit. One-time costs include $97,000 for information technology changes and $8,000 associated with new forms, documentation, and staff training. Annual costs include salary and benefits for 1.5 tax examiner positions to process pre-approvals and properly apply claimed credits.

Sincerely,

Greg S. Griffin

Greg S. Griffin
State Auditor

Teresa A. MacCartney

Teresa A. MacCartnev. Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Jet Fuel Exemption

Absent the suspension, sales ofjet fuel are generally subject to a four percent state sales tax, with one percentage point of the four dedicated to aviation purposes per federal regulations and the balance going to the general ftnd. The exception is fuel for international flights departing from Hartsfield-Jackson Atlanta International Airport (ATL), which is exempted due to the designation of the area as a Free Trade Zone. The subject bill would result in the same effective taxation after June 30, 2019. The estimates herein are thus of the fiscal impact through the end of the fiscal year, or more precisely from August 1, 2018 through June 30, 2019.

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Data used and assumptions made in the analysis are as follows:

- Georgia Department of Revenue (DOR) began in July 2015 requiring separate reporting of jet fuel sales and has provided data on sales tax collections from jet fuel by county for all months from July 2015 through the last month before the suspension took effect, July 2018. These data, along with monthly average fuel prices, were used to estimate the statewide volume of jet fuel sold each month.

- Historical estimated volumes were projected forward at the national rate of growth projected by the U.S. Energy Information Administration (EIA), about 2.9 percent per annum from 2017 through 2019.

- Based on the historical share of jet fuel consumed during the months of August through June (from the DOR data) compared to the full fiscal year, about 91.4 percent, the projected consumption of jet fuel over the relevant eleven months of FY 2019 is approximately 542 million gallons.

- According to the EIA, the average price ofjet fuel was $2.176 per gallon in August 2018, the most recent month available. According to their forecast, the average monthly price of jet fuel is expected to be about $2.17 over the entire Aug-June period. The estimates allow for a range around that forecast of ± 5 percent, for a range of about $2.06 to $2.28.

Table 2 provides the resulting high and low forecasts of sales tax revenue that could be expected from sales of jet fuel in the state for the August 2018 — June 2019 period in the absence of the exemption.

Table 2. Estimated Effects of the Jet Fuel Exemption for August 1, 2018 through June 30, 2019

Statewide Jet Fuel Consumption (millions ofgallons loaded)		542.2
Price per Gallon of Jet Fuel	High	$2.28
	Low	$2.06
State Sales Tax Effect @ 4% ($ millions)	High	($49.4)
	Low	($44.7)
Portion Dedicated to Aviation Purposes ($ millions)	High	($12.3)
	Low	($11.2)

Reforestation Credit

Estimates of the value of the timber damage have been provided by the Georgia Forestry Commission. According to that analysis, 37.7 million tons and 2.4 million acres of pine and hardwood timber have sustained damage. Using third quarter 2018 market prices, losses have been valued at $762.7 million in total, or $20.23 per ton and $322 per acre on average. Based on this damage assessment, casualty losses to the Georgia commercial timber industry associated with Hurricane Michael would not exceed the $400 per acre limitation but would exceed the $200 million cap. Thus, it is estimated that all the allowable credits will be claimed.

Preapproval claims must be completed by December 31 , 2019, but utilization of claims must occur after replanting has occurred. Thus, the estimate assumes that the earliest use of the credit will be in CY 2020.

Corporate and other industry owners comprise approximately 35 percent of forest land, and the estimate assumes that 100 percent of these owners will claim the credit. Nine percent of forest land is publicly owned. Individual landowners comprise the remaining 56 percent of total state timber land. It is assumed that between 90 and 95 percent of these landowners will claim the credit. The estimate assumes that many individual taxpayers will not have sufficient tax liability against which to use the credit. To benefit from the credit, these individuals must transfer the credit. In this version of the legislation, landowners do not have to sell the property in order to transfer the credit. Because this modification places fewer restrictions on the ability to transfer the credit than the version estimated on 10-31-2018, we assume that a higher percentage of individual timber producers will replant and qualify for the credit. In addition, we assume that a greater number of the credits will be transferred earlier revenue window. The effect of this is to increase the revenue loss in the early years after the implementation of this provision compared to previous estimates of this legislation.

Based on these assumptions, total credits claimed are forecasted to meet the $200 million cap. It is further assumed that taxpayers will use the credits over a 3-year period with 80 percent used in CY2020 (split evenly between FYs 2020 and 2021), 15 percent used in C Y2021, and 5 percent used in CY2022. If credits are utilized faster, the revenue loss will be larger in CY 2020 and CY2021. If credits are utilized slower than expected, the revenue loss will occur later in the estimation window.